



Government of the District of Columbia
Vincent C. Gray, Mayor
Department of Insurance, Securities and Banking



Chester A. McPherson
Interim Commissioner

**BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA**

Re: Report on Examination - **Fairway Physicians Insurance Company, A Risk Retention Group** as of December 31, 2012

ORDER

An Examination of **Fairway Physicians Insurance Company, A Risk Retention Group** as of December 31, 2012 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

It is hereby ordered on this 23rd day of April, 2014, that the attached financial condition examination report be adopted and filed as an official record of this Department.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.

Chester A. McPherson
Interim Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

Fairway Physicians Insurance Company,
A Risk Retention Group

AS OF

DECEMBER 31, 2012

NAIC NUMBER 11840

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Washington, D.C.
January 21, 2014

Honorable Chester A. McPherson
Interim Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street, NE, Suite 701
Washington, D.C. 20002

Dear Interim Commissioner McPherson:

In accordance with Section 31-3931.14 of the District of Columbia Official Code, we have examined the financial condition and activities of

Fairway Physicians Insurance Company, A Risk Retention Group

hereinafter referred to as the “Company” or “Fairway,” located at the office of its program manager, Thorson Insurance Services, Inc., 30401 Agoura Road, Suite 101, Agoura Hills, California 91301.

SCOPE OF EXAMINATION

This full-scope examination, covering the period from January 1, 2008 through December 31, 2012, including any material transactions and/or events noted occurring subsequent to December 31, 2012, was conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”). The last examination was completed as of December 31, 2007 by the Department.

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (“Handbook”) and the policies and standards established by the Department. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with applicable accounting principles, annual statement instructions, and compliance with domestic jurisdiction laws and regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In

planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

The Company was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2008 through 2012. We placed substantial reliance on the audited financial statements for calendar years 2008 through 2011, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2012. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2012. We placed reliance on the work of the auditor and directed our efforts, to the extent practical, to those areas not covered by the firm's work papers.

SUMMARY OF SIGNIFICANT FINDINGS

The results of this examination disclosed no material adverse findings, significant non-compliance findings, or material changes in financial statements.

SUBSEQUENT EVENTS

In March 2014, the Company filed its 2013 Annual Statement with the Department. The Company reported "Net underwriting loss" of \$3,368,279 on earned premiums of \$10,482,187, and reported an overall net loss of \$1,552,887. In addition, the Company reported "Total adjusted capital" totaling \$5,239,952 and "Authorized control level risk-based capital" totaling \$2,700,831 as of December 31, 2013. Upon receiving the Annual Statement, the Department began corresponding with management of the Company in an attempt to understand the conditions contributing to the underwriting loss and to the "Authorized control level risk-based capital" level, and to understand possible actions to be taken by the Company to address these conditions.

STATUS OF PRIOR EXAMINATION FINDINGS

A full scope financial examination was conducted by the Department as of December 31, 2007, which covered the period November 10, 2003 through December 31, 2007. In the Report on the prior examination, dated March 12, 2009, the Department noted three exception conditions and related recommendations. Our examination included a review to determine the current status of the three recommendations in the prior exam report, and determined that the Company had satisfactorily addressed these recommendations.

HISTORY

General:

Fairway was incorporated under the captive laws of South Carolina on October 22, 2003 and was authorized to begin business on November 10, 2003, operating as a risk retention group. The Company commenced underwriting on January 1, 2004. On June 25, 2004 the Company re-domesticated to the District of Columbia under the District's captive insurance laws.

Fairway provides claims made medical professional liability coverage to physicians licensed to practice in the state of California and several other states where the Company is registered to do business. The Company also offers extended tail liability to insureds that terminate coverage. This coverage is free in the event of death or disability, or if the insured has been with the program for at least five years and is retiring.

Effective June 30, 2011, the Company acquired 100 percent of the common shares of American Eagle Insurance Company Risk Retention Group ("American Eagle"), a corporation organized under the laws of the state of Vermont, by means of a merger of American Eagle with and into the Company, with the Company as the surviving corporation. American Eagle provided medical malpractice liability insurance to Georgia physicians. Results of operations of American Eagle were included in the Company's financial statements from the date of acquisition. The acquisition was accounted for using the purchase method in accordance with Generally Accepted Accounting Principles ("GAAP") guidance on business combinations. The purchase consideration consisted of \$40,000 in cash paid by Fairway to the stockholders of American Eagle.

Membership:

The Company is authorized to issue Class A and Class B shares of common stock in accordance with the Company's articles of incorporation. Two of the founding physician policyholders are the holders of the Class A common stock and have the right to elect at least 60 percent of the Company's directors. Michael S. Gurvey, MD owns 75 percent of the Class A shares and Maurice P. Sherman, MD owns 25 percent of the Class A shares. By virtue of his 75 percent ownership, Dr. Gurvey controls the Class A shareholders' right to elect 60 percent of the Company's directors. The holders of Class B common stock, who are also policyholders, can appoint the remaining members of the board. Additionally, for matters submitted to a vote of shareholders, each holder of Class A common shares is entitled to one vote for each common share while the holders of Class B common shares do not have voting rights.

The Company's shareholder subscription agreement obligates policyholders to purchase Class B common stock and contribute capital to the Company equal to 30 percent of the policyholders' first year premium. Payments for shares are due in three annual installments. The subscription agreement was changed by the Company in 2007 to change the Class B issue price per share from \$1 to \$2 per share.

Class A shares have a par value and issue price of \$1 and Class B shares have no par value and issue prices as stated above. 5,000,000 Class A shares were authorized and 1,600,000 were issued and outstanding at December 31, 2012. 15,000,000 Class B shares were authorized and 3,008,355 were issued and outstanding at December 31, 2012.

Dividends and Distributions:

The Company did not declare or pay any dividends or other distributions during the period under examination.

MANAGEMENT

Board of Directors and Officers:

The Company's directors serving as of December 31, 2012 were as follows:

<u>Name and State of Residence</u>	<u>Principal Occupation</u>
Michael Gurvey, MD, Chairman California	Orthopedic Surgeon Michael Gurvey and Associates
Muhammad Anwar, MD California	Internal Medicine/Pulmonary Disease Mid-Valley Pulmonary
Brian Bashner, MD California	Orthopedic Surgeon Westlake Orthopedic Group
David Thorson California	Chief Executive Officer Thorson Insurance Services, Inc.

The Company's officers serving as of December 31, 2012 were as follows:

<u>Name</u>	<u>Title</u>
David Thorson	President
Robert Wiley	Chief Financial Officer and Secretary

Committees:

The Company's by-laws provide that the board of directors may designate one or more committees of the board, each committee to consist of at least one or more directors of the Company. As of December 31, 2012, the Company's board of directors has established the following committees:

Executive Committee:

Michael Gurvey, MD
Muhammad Anwar, MD
David Thorson

Audit Committee:

Brian Bashner, MD
Muhammad Anwar, MD
Michael Gurvey, MD

Claims Committee:

Michael Gurvey, MD
David Thorson
Robert Wiley

Expense Committee:

Michael Gurvey, MD
Brian Bashner, MD
David Thorson

Investment Committee:

Michael Gurvey, MD
David Thorson
Robert Wiley

Nominating Committee:

Michael Gurvey, MD
David Thorson
Brian Bashner, MD

Underwriting Committee:

Muhammad Anwar, MD
Michael Gurvey, MD
David Thorson

Conflicts of Interest:

The Company has adopted a “Code of Business Conduct and Ethics” which includes guidance for disclosure of conflicts of interest, and requires officers, directors, and service providers of the Company to annually certify compliance with the code. Our review of the conflict of interest statements completed by the Company’s directors and officers for the period under examination disclosed that there were no conflicts of interest reported that would adversely impact the Company.

Corporate Records:

We reviewed the minutes of the meetings of the board of directors and shareholders for the period under examination. Based on our review, it appears that the minutes documented the board’s review and approval of the Company’s significant transactions and events.

CAPTIVE MANAGER

R&Q Quest Management Services USA, LLC (“R&Q”), formerly Camelback Captive Services, Inc., was the Company’s captive manager, and provided services including accounting, record retention, regulatory compliance and other management services.

AFFILIATED PARTIES AND TRANSACTIONS

The Company's daily business operations are managed by Thorson Insurance Services, Inc. ("Thorson") which acts as the Company's managing general agent and performs various administrative functions including underwriting, marketing and overall program management services. Thorson's affiliate, Risk Management Services Group, Inc. ("RMSG") provides claims management services. Thorson's chief executive officer, David Thorson, is the Company's President and is a member of Fairway's board of directors, but has no ownership interest in Fairway.

Effective July 30, 2004, the Company entered into a program manager agreement with Thorson. Under the terms of the agreement, Thorson acts as the Company's managing general agent, including solicitation, underwriting, and premium and capital collection. The agreement specified a provisional commission of 15.5 percent of gross written premium net of return premium, with an increase of ½ percent for each fully developed loss ratio point below 65 percent to a maximum commission of 20.5 percent. On August 1, 2007, Thorson agreed to forfeit this profit sharing commission, including any commission already earned and any commission earned in the future. In addition, the agreement specified that the Company shall pay Thorson 10 percent of gross written premium net of return premium for general expenses, acquisition costs and unallocated loss expenses.

Effective July 29, 2009, the Company entered into a new program manager agreement with Thorson that set the commission to 21.5 percent of gross written premiums net of return premium, which consisted of a 15.5 percent fixed rate and an additional fee of 6 percent for other expenses. The agreement was continuous until terminated.

Prior to July 29, 2009, Thorson subcontracted with RMSG for Fairway's claims management services and Fairway paid RMSG directly. Effective July 29, 2009 the Company entered into a claims management agreement directly with RMSG. The agreement is continuous until terminated. Under the terms of the agreement, RMSG is delegated claims adjustment authority for all claims on Fairway's policies. The agreement specified that claims service fees in the amount of 4 percent of gross written premium (net of return premium) shall be paid by the Company.

During 2012, the Company paid commissions of \$2,229,124 to Thorson and claim service fees of \$457,228 to RMSG.

In December 2011, the Department approved a business plan change under which Fairway is authorized to provide advances to Pacific Risk & Financial Services, Inc. ("Pacific Risk"), a premium financing company owned by David Thorson. The purpose of the advances, which are limited to a maximum of 5 percent of the Company's assets up to a maximum of \$2 million, is to provide premium financing to Fairway's insureds. As of December 31, 2012, the Company reported outstanding advances to Pacific Risk totaling \$1,450,100. The advances are guaranteed by Thorson Insurance Services, Inc.

FIDELITY BOND AND OTHER INSURANCE

Fairway maintained Directors and Officers Liability coverage in the amount of \$1,000,000. The Company's program manager, Thorson, maintained fidelity insurance in the amount of \$500,000 which covered both Thorson and RMSG. Thorson maintained Errors and Omissions coverage in the amount of \$2,000,000 and RMSG maintained Errors and Omissions coverage in the amount of \$1,000,000. Thorson also maintained general liability coverage in the amount of \$1,000,000. This provided adequate coverage based on NAIC guidelines and contractual requirements.

PENSION AND INSURANCE PLANS

The Company had one employee and had no employee pension or insurance plans.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2012, the Company was licensed in the District of Columbia and was registered as a risk retention group in Arizona, California, Colorado, Georgia, Idaho, Maryland, New Mexico, New York, North Carolina, Ohio, Oregon and Washington. During 2012, the Company wrote premiums totaling \$11,731,969. Approximately 94 percent of the Company's written premium in 2012 was written in the following four (4) states: \$8,159,762 (70 percent) of the Company's written premium in 2012 was in California; \$1,191,538 (10 percent) in New York; \$1,094,311 (9 percent) in New Mexico and \$614,554 (5 percent) in Arizona.

The Company provides claims made medical professional liability coverage to physicians who had a current license to practice in the State of California or the other states where the Company writes business. Limits were offered up to \$1,300,000 per claim and \$3,900,000 in the aggregate; however, the majority of policies were offered with limits of \$1,000,000 per claim and \$3,000,000 in the aggregate. The Company also offered extended tail liability to insureds that terminated coverage. This coverage was free in the event of death, disability or if the physician had been with the program for at least five years and was retiring. The Company also offered excess claims made malpractice coverage for limits of \$1,000,000 per occurrence excess of \$1,000,000. Deductibles of zero to \$25,000 were available.

The Company retains the first \$300,000 of risk per claim and reinsures the remainder of policy limits through excess of loss reinsurance agreements with various reinsurers. See the "Reinsurance" section of this report for further comments regarding the Company's reinsurance program.

The Company had one employee and the majority of its daily business operations were managed by various affiliated service providers based on the service agreements as described above under "Affiliated Parties and Transactions". During the examination period and as of the date of this report, the Company's captive manager, R&Q, is managing the Company's accounting and regulatory filings from offices in Phoenix, Arizona. The underwriting, policy

issuance, and premium billing and collection are handled by Thorson in Agoura Hills, California. Claims administration, risk management and loss control services are handled by RMSG in Agoura Hills, California.

COMPARATIVE FINANCIAL POSITION OF THE COMPANY

The financial position of the Company and its loss experience for the years under examination is presented in the following table. Information for the years 2008 to 2011 is prepared from information contained in the Company's annual statements filed with the Department. The amounts presented in the table for the year ended December 31, 2012 are determined by this examination.

	2012	2011	2010	2009	2008
Total admitted assets	\$ 27,232,591	\$ 28,007,151	\$ 21,165,982	\$ 17,391,208	\$ 16,537,335
Total liabilities	\$ 20,703,756	\$ 22,463,094	\$ 17,074,284	\$ 14,078,939	\$ 13,199,345
Total capital and surplus	\$ 6,528,835	\$ 5,544,057	\$ 4,091,698	\$ 3,312,269	\$ 3,337,990
Net cash from operations	\$ (1,091,648)	\$ 3,647,897	\$ 3,487,870	\$ (404,485)	\$ 1,392,225
Total adjusted risk-based capital	\$ 6,528,835	\$ -	\$ -	\$ -	\$ -
Authorized control level risk-based capital	\$ 2,817,564	\$ -	\$ -	\$ -	\$ -
Gross written premium	\$ 11,731,969	\$ 11,684,443	\$ 11,342,021	\$ 8,222,197	\$ 8,201,323
Ceded premiums written	\$ 1,407,322	\$ 1,212,545	\$ 1,150,781	\$ 690,531	\$ 686,148
Premiums earned	\$ 10,100,278	\$ 10,952,868	\$ 8,645,563	\$ 7,923,376	\$ 7,694,676
Net underwriting gain (loss)	\$ 1,198,332	\$ (219,273)	\$ (266,198)	\$ (940,743)	\$ (1,329,652)
Net investment income	\$ 714,305	\$ 527,869	\$ 465,349	\$ 385,082	\$ 281,850
Net realized capital gains (losses)	\$ 34,213	\$ 113	\$ 1,248	\$ (1,500)	\$ 2,813
Net income (loss)	\$ 1,179,664	\$ 1,044,462	\$ 150,618	\$ (422,195)	\$ (725,569)
Net underwriting gain to PHS	18.4%	-4.0%	-6.5%	-28.4%	-39.8%
Net written premium to PHS	158.1%	188.9%	249.1%	227.4%	225.1%
Losses and LAE incurred	\$ 5,394,935	\$ 7,666,821	\$ 5,970,214	\$ 5,942,332	\$ 6,401,053
Other underwriting expenses incurred	\$ 3,507,011	\$ 3,505,320	\$ 2,941,547	\$ 2,921,788	\$ 2,623,276
Net loss ratio	53.4%	70.0%	69.1%	75.0%	83.2%
Expense ratio	34.7%	32.0%	34.0%	36.9%	34.1%

REINSURANCE

Assumed Reinsurance:

The Company did not assume any reinsurance during the examination period.

Ceded Reinsurance:

Effective January 1, 2011 to January 1, 2013, the Company entered into a combined reinsurance agreement providing primary excess of loss and first excess coverage. Under this treaty, the Company cedes liabilities in excess of \$300,000 up to \$1,700,000 per claim/per insured. Reinsurance is provided through the BMS Group, a reinsurance intermediary and is underwritten by Lloyd's of London syndicates, Aspen Insurance UK Limited, American Safety Reinsurance Ltd. and Catlin Insurance Company Ltd. Before ceding any losses under the contract the Company must satisfy an inner aggregate limit equal to 5.0 percent of the primary direct written premiums subject to the treaties. The final cost of reinsurance is adjusted according to the duration of the contract and the actual losses incurred. The minimum reinsurance premium for the 2012 and 2011 reinsurance contracts is 6.5 percent of the direct subject premiums and increases to a maximum of 35 percent of direct premiums based on actual reinsured losses.

As of December 31, 2012 and 2011, no losses were projected to be ceded under the reinsurance agreements. Therefore, the cost of reinsurance was recorded at the minimum reinsurance premium of 6.5 percent of direct written premiums as of December 31, 2012 and 2011.

Receivable from reinsurers as of December 31, 2012 and 2011 of \$2,786,221 and \$3,573,997, respectively, represents the difference between deposit premium payments made under the reinsurance agreement and the estimated reinsurance cost as outlined above. These amounts are not payable to the Company until twelve months after the expiration or cancellation of the reinsurance agreement.

In March 2010, the Department granted approval for the Company to commute the 2007 and 2008 reinsurance treaties. As a result of this commutation, the Company received \$1,977,569 in premium due from the reinsurers. In September 2012, also with the approval of the Department, the Company commuted the 2009 and 2010 reinsurance treaties. As a result of this commutation, the Company received \$2,393,066 in premium due from reinsurers. No losses were ceded to the reinsurers under the original reinsurance treaties and the Company will retain all losses related to these policy years going forward.

During November 2011, with the approval of the Department, the Company commuted American Eagle's reinsurance treaties that were in place at the date of the merger. As a result of these commutations, the Company received \$2,674,414 in premium due from the reinsurers. The Company will retain all losses related to American Eagle claims going forward.

Our review of the Company's ceded reinsurance contract did not disclose any unusual provisions.

ACCOUNTS AND RECORDS

The primary locations of the Company's books and records are at the offices of its captive manager, R&Q, in Phoenix, Arizona; and at the offices of its program manager, Thorson, in Agoura Hills, California.

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers. Our examination did not disclose any significant issues with these records.

STATUTORY DEPOSITS

As of December 31, 2012, the Company did not have any statutory deposits in the District of Columbia and was not required to maintain any such deposits. In addition, the Company was not required to maintain statutory deposits with any other jurisdictions.

FINANCIAL STATEMENTS

Except for the Letter of Credit as described in **NOTE 1**, the following financial statements are prepared in accordance with accounting practices generally accepted in the United States (“GAAP”). These financial statements reflect the financial condition of the Company as of December 31, 2012, as determined by this examination:

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The accompanying Notes to Financial Statements are an integral part of these Financial Statements.

BALANCE SHEET

ASSETS

	<i>December 31, 2012</i>
Bonds	\$ 14,278,067
Common stocks	139,971
Cash (\$2,137,217), cash equivalents (\$0) and short-term investments (\$0)	2,137,217
Other invested assets	<u>\$ 1,450,100</u>
Subtotals, cash and invested assets	\$ 18,105,355
Investment income due and accrued	219,756
Uncollected premiums and agents' balances in the course of collection	2,219,004
Reinsurance:	
Other amounts receivable under reinsurance contracts	2,786,221
Net deferred tax asset	1,249,328
Aggregate write-ins for other than invested assets:	
Letter of credit (NOTE 1)	\$ 1,000,000
Capital receivable	83,816
Prepaid commissions	819,098
Deferred acquisition costs	144,122
Prepaid TPA fees	290,046
Prepaid administration expenses	<u>315,845</u>
	\$ 2,652,927
Total	<u><u>\$ 27,232,591</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS

	<i>December 31, 2012</i>
Losses (NOTE 2)	\$ 7,866,440
Loss adjustment expenses (NOTE 2)	7,346,046
Other expenses (excluding taxes, licenses and fees)	253,491
Unearned premiums	4,891,685
Ceded reinsurance premiums payable (net of ceding commissions)	346,094
Total Liabilities	\$ 20,703,756
Common capital stock	\$ 4,938,531
Letter of credit	1,000,000
Unassigned funds (surplus)	590,304
Surplus as regards policyholders	\$ 6,528,835
Total	<u>\$ 27,232,591</u>

STATEMENT OF INCOME

	<i>2012</i>
UNDERWRITING INCOME	
Premiums earned	\$ 10,100,278
DEDUCTIONS	
Losses incurred	\$ 2,068,512
Loss expenses incurred	3,326,423
Other underwriting expenses incurred	3,507,011
Total underwriting deductions	\$ 8,901,946
Net underwriting gain	\$ 1,198,332
INVESTMENT INCOME	
Net investment income earned	\$ 714,305
Net realized capital gains	34,213
Net investment gain	\$ 748,518
OTHER INCOME	
Change in net deferred income tax	\$ (241,826)
American Eagle profit sharing expense	(515,421)
Total other income	\$ (757,247)
Net income after dividends to policyholders, after capital gains and before all other federal and foreign income taxes	\$ 1,189,603
Federal and foreign income taxes incurred	9,939
Net income	\$ 1,179,664

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2007	\$ 3,774,671
Net loss, 2008	\$ (725,569)
Capital changes: paid in	3,233,949
Surplus adjustments: paid in	(2,945,061)
Net change in surplus as regards policyholders, 2008	(436,681)
Surplus as regards policyholders, December 31, 2008	\$ 3,337,990
Net loss, 2009	(422,195)
Capital changes: paid in	396,474
Net change in surplus as regards policyholders, 2009	(25,721)
Surplus as regards policyholders, December 31, 2009	\$ 3,312,269
Net income, 2010	150,618
Capital changes: paid in	537,095
Prior period adjustment	91,716
Net change in surplus as regards policyholders, 2010	779,429
Surplus as regards policyholders, December 31, 2010	\$ 4,091,698
Net income, 2011	1,044,462
Capital changes: paid in	407,897
Net change in surplus as regards policyholders, 2011	1,452,359
Surplus as regards policyholders, December 31, 2011	\$ 5,544,057
Net income, 2012	1,179,664
Capital changes: paid in	363,118
Prior period adjustment	(558,004)
Net change in surplus as regards policyholders, 2012	984,778
Surplus as regards policyholders, December 31, 2012	\$ 6,528,835

ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

There were no changes to the Company's surplus as a result of our examination.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - Letter of Credit:

At December 31, 2012, the Company's surplus as regards policyholders included a \$1,000,000 letter of credit in the possession of the District of Columbia Insurance Commissioner. Under the Laws of the District of Columbia, letters of credit approved by the Department are allowed as admitted assets and surplus as regards policyholders. Inclusion of the letters of credit as assets and surplus as regards policyholders is not in accordance with GAAP.

NOTE 2 – Loss and Loss Adjustment Expense Reserves:

The Company reported "Losses" and "Loss adjustment expenses" reserves totaling \$7,866,440 and \$7,346,046, respectively. These reserves represent management's best estimate of the amounts necessary to pay all claims and related expenses that have been incurred but are still unpaid as of December 31, 2012.

The methodologies utilized by the Company to compute reserves, and the adequacy of the losses and loss adjustment expenses reserves as of December 31, 2012, were reviewed as part of our examination. As part of our review, we relied on the work performed by the Company's independent actuary, who concluded that the Company's reserves appeared to be sufficient. In addition, as part of our examination of the Company's reserves, we engaged an examination actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company's independent actuary. The examination actuary utilized concluded that the methods employed, assumptions relied upon, and conclusions reached by the Company's independent actuary appeared sufficient and that reserves as reported in the Company's financial statements are reasonable and adequate.

COMMENTS AND RECOMMENDATIONS

During the examination, no issues warranting comments or recommendations in this examination report were noted.

CONCLUSION

Our examination disclosed that as of December 31, 2012 the Company had:

Admitted Assets	\$	27,232,591
Liabilities and Reserves		20,703,756
Common Capital Stock		4,938,531
Letter of Credit		1,000,000
Unassigned Funds (Surplus)		590,304
Total Surplus		6,528,835
Total Liabilities, Capital and Surplus	\$	27,232,591

Based on our examination, the accompanying balance sheet properly presents the financial position of the Company at December 31, 2012, and the accompanying statement of income properly presents the results of operations for the period then ended.

Chapter 39 (“CAPTIVE INSURANCE COMPANIES”) of Title 31 (“Insurance and Securities”) of the D.C. Official Code specifies the level of capital and surplus required for the Company. We concluded that the Company’s capital and surplus funds exceeded the minimum requirements during the period under examination.

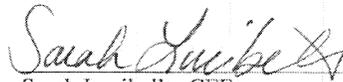
SIGNATURES

In addition to the undersigned, the following examiners representing the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination:

Lindsey Pittman, CFE, Lewis & Ellis, Inc.
Lisa Marteney, CFE, CISA, AES, Lewis & Ellis, Inc.

The actuarial portion of this examination was completed by Kristine M. Fitzgerald, ACAS, MAAA, FCA and Steven P. Lattanzio, FCAS, MAAA, FCA of Actuarial & Technical Solutions, Inc.

Respectfully submitted,



Sarah Lucibello, CFE
Examiner-In-Charge
Lewis & Ellis, Inc.

Under the Supervision of,



David Schleit, CFE
Supervising Examiner
District of Columbia Department of Insurance,
Securities and Banking



Government of the District of Columbia
Vincent C. Gray, Mayor
Department of Insurance, Securities and Banking



Chester A. McPherson
Interim Commissioner

March 20, 2014

David C. Thorson
President
Fairway Physicians Insurance Company, A Risk Retention Group
15255 N. 40th Street, Suite 109
Phoenix, Arizona 85032

RE: Examination of **Fairway Physicians Insurance Company, A Risk Retention Group** as
of December 31, 2012

Dear Mr. Thorson:

Pursuant to the provisions of Section 31-1404 of the D.C. Official Code, enclosed is a draft copy of the Report on Examination (“Report”) of the affairs and financial condition of Fairway Physicians Insurance Company, A Risk Retention Group (“Company”) as of December 31, 2012.

Please submit, to my attention, a written response calling attention to any errors or omissions. In addition, if this Report on Examination contains a section entitled “Comments and Recommendations” that discloses certain areas requiring action, the Company shall submit a statement covering the corrective measures which will be taken. If the Company’s position on any of these points is contrary to the Examiner’s findings, an explanation should be submitted covering each contested comment and/or recommendation.

If there are no errors or omissions to be brought to our attention, and there are no “Comments and Recommendations” requiring a response, please submit a statement that the Company accepts the Report.

The response must be in writing and shall be furnished to this Department by April 21, 2014. In addition to a hard-copy response, please also furnish the response electronically via e-mail to me, in a Microsoft “Word” format, to sean.odonnell@dc.gov.

Sincerely,

Sean O'Donnell
Director of Financial Examination,
Risk Finance Bureau

Enclosure

April 21, 2014

Sean O'Donnell
Director of Financial Examination
Government of the District of Columbia
DISB
810 First Street, NE, Suite 701
Washington, DC 20002

RE: Examination of Fairway Physicians Insurance Company, A Risk Retention Group as of
December 31, 2012

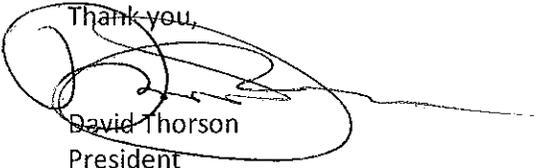
Dear Mr. O'Donnell:

This letter is in response to your letter dated March 20, 2014 whereby we received a draft copy of the Report on Examination ("Report") of the affairs and financial condition of Fairway Physicians Insurance Company, A Risk Retention Group ("Company") as of December 31, 2012.

After review of the Report, please let this letter serve as notice that the Company accepts the Report. There were no issues warranting comments or recommendations noted in this Report.

If you have any questions or need any further information, please let us know.

Thank you,


David Thorson
President



Government of the District of Columbia
Vincent C. Gray, Mayor
Department of Insurance, Securities and Banking



Chester A. McPherson
Interim Commissioner

April 23, 2014

David C. Thorson
President
Fairway Physicians Insurance Company, A Risk Retention Group
15255 N. 40th Street, Suite 109
Phoenix, Arizona 85032

RE: Examination of **Fairway Physicians Insurance Company, A Risk Retention Group** as
of December 31, 2012

Dear Mr. Thorson:

We are in receipt of your response dated April 21, 2014, regarding the Report on Examination of Fairway Physicians Insurance Company, A Risk Retention Group ("Company") as of December 31, 2012. The response is deemed adequate.

The adopted Report (which includes a copy of this letter), and the Order evidencing such adoption are enclosed. Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the adopted Report will be held private and confidential for a period of 10 days from the date of the Order evidencing such adoption. After this 10 day period has passed, the Report will be publicly available. The Department of Insurance, Securities and Banking will forward the adopted Report electronically to each jurisdiction in which the Company is registered and to the National Association of Insurance Commissioners.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each Company director stating under oath that he or she has received a copy of the adopted examination Report and related Order shall be filed with this Department. Please send these affidavits to my attention at the Department.

Please contact me at 202-442-8153 if you have any questions.

Sincerely,

Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau

Enclosures